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**“Creating a Dialogue of the Possible”**  
**Remarks by Senator Max Baucus**  
**Seattle, Washington**

More than 35 years ago, before President Nixon traveled to the People’s Republic of China, and before America established diplomatic ties with that country, the great Montana Senator, Mike Mansfield, received a letter from Beijing. It was an invitation to meet with Prime Minister Zhou Enlai.

Senator Mansfield drafted a telegram to Prime Minister Zhou accepting the invitation. But, at the time, there was no telegram service between America and China. Undeterred, Senator Mansfield went to the Post Office and mailed a registered letter to Prime Minister Zhou. But the Post Office returned the letter seven days later, with the notation “No Registry Service to This Country.”

Only on his third try did Senator Mansfield’s persistence pay off. The Senator sent his message through the French Embassy in Washington. The embassy passed it to an intermediary in Beijing. And the intermediary delivered it to Prime Minister Zhou.

Much has changed since Senator Mansfield’s time. But even so, we still must be thoughtful about the message that we send to China — how we send it and how it is received.

Messages have meaning, especially in times of trouble. They can ameliorate a difficult situation. Or they can aggravate one. Sending the right message, at the right time, is a delicate task.

It is a task that we must accomplish today with China. The Sino-American relationship is the most important relationship of the 21st century. It has pulled millions out of poverty in China at a rapid rate. Today, living standards in China are increasing. Compare that with Europe during the industrial revolution, when living standards only doubled per generation.

Our bilateral relationship has created thousands of American jobs, including in the manufacturing and services industries of Washington state, and on the farms and ranches of my home state of Montana.

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But that relationship is in a precarious place. Economic imbalances, political concerns, and mixed signals threaten to drag our partnership onto unsustainable footing. An increasing number of American workers, manufacturers, and Members of Congress view China as the cause of stagnating wages and economic distress. And more and more Chinese harbor suspicions about whether America really wants China to succeed. In this climate, the message America sends to China must be carefully calibrated. That message could further opportunities for American workers, farmers, and ranchers in a China with a burgeoning middle class and consumer economy.

Or that message could create real risks. A careless message thoughtlessly delivered could create lasting harm. In China, we risk an entire generation growing up believing that America is intent on keeping them impoverished. They could grow up believing that America wishes failure for their great economic endeavor. They could grow up believing that America stands between them and prosperity.

Unfortunately, recent statements by some policymakers have perpetuated this impression.

In America, we also risk creating a generation filled with resentment and suspicion. We risk creating a generation convinced that China is a greater threat than it is an opportunity. We risk creating a generation that blames China for job losses, factory closings and other hardships.

We must be thoughtful how we send our message and handle our relationship with China. The stakes are high. This is about more than our relationship with China. Our bilateral ties are a microcosm of America's greater, global challenges.

Piracy and counterfeiting are not uniquely Chinese phenomena. Neither is currency manipulation. We face the same challenges in many other economies, too.

If we solve our problems with China, we can solve them elsewhere. If we can unlock the potential of the Chinese market, we can unlock the potential of other markets. If we can learn to cooperate with China, we can build stronger partnerships around the world. Yet if we fail with China, we will likely fail elsewhere.

So what is our message to China? What are we sending? And how has that message been received?

For too long, the message has been about frustration and incapability. We hear only what cannot be done. We hear only what is impossible.

We hear that China cannot appreciate its currency. And we hear that China cannot liberalize its financial sector.

We hear that America cannot cite China as a currency manipulator. And we hear that America cannot challenge China's intellectual property violations in the World Trade Organization.

We hear that China cannot accelerate reforms. And we hear that America cannot pressure reformers.

Americans are tired of hearing this chorus of what cannot be done.

Instead, our message must change. We must begin a dialogue of what we can do. We must send a message of what China can do. We must send a message of what America can do. We must send a message of what our two countries can do together. We must begin a dialogue of the possible.

Let us begin with China.

First, the persistent inflexibility of China's exchange rate regime has gone on too long. Lack of reform threatens our bilateral ties. It promises to undermine China's economic stability. And it threatens to undermine China's continued economic growth.

In the short and medium term, China can do more to bring flexibility to its exchange rate, liberalize capital flows, and strengthen its financial system. Despite a small appreciation against the dollar, China's tightly managed exchange rate has moved very little overall. That should change.

For instance, as China focuses on diversifying official reserves, Chinese companies and individuals also should have more options to invest abroad. Foreign investors should also be given more opportunities to invest in financial instruments in China. I understand that China's financial system is weak and has little experience with open markets. But the best and quickest way to develop risk management tools and expertise is for China to open its market further to American financial services.

Such reforms like this would make China's growth more sustainable, more balanced, more flexible, and more open to global markets. To facilitate these reforms, I plan to convene a committee of experts who are familiar with the risks and limitations of China's economy. They will be experts who have studied China's economy. I will ask them to report to me on a set of reform options that will advance China's exchange rate regime to the benefit of America, China, and the global economy.

Second, China can embrace further market liberalization. To date, China has done a remarkable job of reforming its economy. And China has implemented many of the commitments that it undertook when it joined the World Trade Organization in December 2001. But too many of those promises remain unfulfilled.

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China can, and must, do more to enforce intellectual property rights. China must do more to reduce piracy and counterfeiting, with the same intensity that it is protecting its 2008 Olympic logo. Copyright piracy alone costs us more than \$4 billion each year. Legitimate goods and services purchases should be the rule, not the exception.

China can, and must, continue to implement its financial services commitments. Only then can American providers and Chinese consumers benefit from the opportunities created by market liberalization.

China can, and must, remove its non-science-based barriers to Montana beef, Washington apples, and other American agricultural products.

China can, and must, open its government procurement to the goods and services that American exporters provide.

Most importantly, China can, and must, move beyond its WTO commitments. China must move further in financial services, telecommunications services, and other areas. China must define a new level of openness and liberalization for sustained growth and mutual benefit.

The dialogue of the possible also calls on the United States. America too can, and must, do more to make our relationship with China more sustainable.

For instance, America can do more to support our exporters. By exporting more, we can help to reduce our unsustainable trade balances with China and the world. For every single dollar that we invest in export promotion programs, we increase exports by at least \$160.

Export dollars mean export jobs. In Washington State, one-in-three jobs are trade related. We can do more to expand export programs, publicize them, and make them accessible to America's small- and medium-sized companies. I recently asked the Government Accountability Office to examine these programs and find what we can do better.

America can also save more. Unfair trade practices and undervalued currencies contribute to our trade deficits. But so do our domestic policies. Americans save very little. Personal and public sector savings rates are both negative. So we borrow abroad to finance our consumption. We must get this borrowing under control and boost domestic savings. That will go a long way to helping bring our current account back into balance.

America can also do a better job enforcing its trade agreements and trade laws. This is an important priority of mine – one which I intend to pursue vigorously this year.

America can also help itself understand the opportunities and challenges posed by our relationship with China. American workers and their families are anxious about China's growing economic influence. Globalization makes many Americans feel insecure. For too long, this anxiety has been dismissed, derided, or ignored. That is unacceptable.

When some Americans fail to see the opportunity in globalization or expanding ties with China, it is not their shortcoming. It is ours. We must do more to better explain — patiently and honestly — the actual and potential benefits of our economic relationship with China. I ask for your help in this endeavor.

I also ask for your help in building greater support for programs to help American workers, firms, and communities adjust to dislocations associated with trade with China and elsewhere. Expanding and changing economic ties can be disruptive. When new American industries grow, sometimes others falter.

That is why we have a Trade Adjustment Assistance program to help the Americans whom trade leaves behind. This program expires in September and must be renewed and expanded. A renewed Trade Adjustment Assistance program must do things that it does not today — like cover service sector workers and workers hurt by our trade with China. As Chairman of the Finance Committee, I plan to revamp our TAA programs and expand their benefits. I need your support to make this happen.

Finally, the dialogue of possibility must address what America and China can do together.

A key area ripe for cooperation is energy. China's energy consumption has doubled in ten years. It is growing at a rate equivalent to adding two Californias each year. China is set to become the world's largest emitter of CO<sub>2</sub>.

America's west coast is already feeling the effects. Mercury levels are higher here, because of coal fired power plants in China.

America needs an energy policy toward China. I support Senator Cantwell's call for a U.S.-China energy dialogue. Cooperation in energy is not just a necessity. It is an opportunity for American businesses to sell China products, services, and technologies that help to manage China's energy consumption in an environmentally sustainable way.

We also must do a better job of matching China's economic needs with American expertise and ingenuity. In key areas — including financial services, energy, and the environment — China wants to do more. China wants to accelerate reforms. But too often, it lacks the technical expertise and experience to do so.

America has that technical expertise in abundance. And we should deploy it to help China to help itself. I propose to work with American business leaders to devise regularized, sector-specific steering committees to engage Chinese counterparts. Structured properly and at the right level, these exchanges could provide critical technical expertise where China needs it most. This is not just another talk shop. Instead, the mandate of these groups would be to accelerate reform and create mutual economic opportunity. Both economies would be better off.

This cooperation can be on the national level. But, as we all know, in all areas – from energy to intellectual property – we have to reach out beyond Beijing to China’s provinces, municipalities, and NGOs.

We can also do more on a global level. America built many of the world’s post-war international institutions. We crafted those institutions to reflect the world as it was and the world as we wanted it to look. And in large part we succeeded.

Today, these institutions are in need of reform. They must better reflect the world as we see it today and the world as we want it to be tomorrow.

Today’s world includes a growing and dynamic China. Tomorrow’s world must include a strong and stable China that is a stakeholder and participant in our key institutions. It must include a China that consistently follows international rules and principles. And it must include a China that participates in managing those institutions.

There is room for a greater role for China in the International Monetary Fund. I continue to evaluate reforms already underway. Eventually, there may be a more prominent role for China in meetings of the Group of Seven, Group of Eight, or even a future Group of Nine. We should begin thinking about that role today.

These ideas are just the beginning. Whether it is China, America, or our two great nations together, there is much that we can do. There is much that is possible. And that should be our focus.

Senator Mansfield persistently tried to send a message to accept that invitation to meet Chinese Premier Zhou Enlai. It turned out that the trip never happened. Instead, Senator Mansfield’s trip was preempted by President Nixon’s historic visit to China.

Upon Nixon’s return, he met with Mansfield for about an hour. At the end of their conversation, Mansfield turned to Nixon and said:

“We’re moving out of an old era and into a new one. This will take a great deal of understanding. . . . We’ve taken a long step; the PRC has taken a long step. I’m hopeful that the prospects for world peace will be enhanced.”

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Thirty-five years later, we, too, need to move into a new era. We, too, require a great deal of understanding. And we need long steps on both sides, with a focus on the possible. But if we remain positive, do it right, and we send the right messages, the prospects for the world and the global economy will once again be enhanced.

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